

CITY OF HUDSON

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2014

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City of Hudson

Officials

After December 2013

Kevin Launderville	Mayor	Dec 2015
Brad Ingamells	Council Member	Dec 2015
Mark Evers	Council Member	Dec 2015
Jerry Volker	Council Member	Dec 2015
Kate Wyatt	Council Member	Dec 2017
Gail Bunz	Council Member	Dec 2017
Richard Hansen	Attorney	Jan 12, 2015

Before January 2014

Kevin Launderville	Mayor	Dec 2013
Dennis Sadler	Mayor Pro Tem	Dec 2013
Brad Ingamells	Council Member	Dec 2015
Mark Evers	Council Member	Dec 2015
Jerry Volker	Council Member	Dec 2015
Robert Grittmann	Council Member	Dec 2013
Richard Hansen	Attorney	January 12, 2014

City of Hudson

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2014, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of

Hudson as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U. S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2014 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages I through VII and 25 through 26 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 2, 2014 on our consideration of the City of Hudson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Hudson's internal control over financial reporting and compliance.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

October 2, 2014

MANAGEMENT DISCUSSION AND ANALYSIS

The City of Hudson provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- The City's revenues increased by \$118,727 from fiscal year 2013 to fiscal year 2014. Receipts in the City's governmental funds increased by \$135,257, receipts in the City's proprietary funds decreased by \$16,530.
- Disbursements increased \$319,021 overall from fiscal year 2013. Expenses in the governmental funds decreased by \$548,875 and decreased expenses in the proprietary funds were \$229,854. The variables in governmental and business funds spending reflect a completion of projects and purchase of equipment from reserves.
- The City's total cash basis net assets decreased \$526,630 from fiscal year 2013 to fiscal year 2014 to a total of \$2,214,383. The decrease in the cash basis reflects expenditures on the capital projects and purchase of a JD tractor.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytic overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances as period ending June 30, 2014.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year July 1, 2013 through June 30, 2014.

Other Supplementary Information provides detailed information about the non-major governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not

present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole, better off or worse off, as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business/Proprietary Type Activities include the water utility funds, sanitary sewer system funds, storm water funds and the solid waste disposal funds. These activities are financed primarily by user charges. Some grant funding may be received as additional support.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending into the next year. The governmental funds include: 1) the General Fund, including the Rural Fire Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing Fund, 3) the Debt Service Fund, and 4) the Capital Projects Fund. Further, governmental fund financial statements classify cash basis fund balances as 1) Non-spendable, 2) Restricted, 3) Assigned, or 4) Unassigned. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements, and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water funds and Sewer funds, which are considered to be major funds of the City, with Storm Water and Solid Waste Disposal funds considered to be non-major funds of the City. The City of Hudson no longer

has an electric utility; however, in 2014 a balance remained within the funds account. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Hudson utilizes no internal service funds.

- 3) The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances. Reconciliations follow the fund financial statement process.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$2.741 million to \$2.214 million. The analysis that follows focuses on the changes in cash balances for *governmental activities*. Changes in Cash Basis Net Assets of Governmental Activities

Description	(Expressed in Thousands) Year Ended June 30, 2014		2013	% of Total
	2014	% of Total		
Receipts and transfers:				
Program Receipts				
Charges for Services	75	4%	72	4%
Miscellaneous	106	5%	49	3%
General Receipts:				
Property Tax	918	46%	869	46%
Tax Increment Financing	84	4%	84	4%
Other City Taxes	293	15%	276	15%
Licenses & Permits	82	4%	97	5%
Use of Money & Property	68	3%	39	2%
Intergovernmental	383	19%	388	21%
Total Receipts	\$2,009	100%	\$1,874	100%
Disbursements:				
Public Safety	499	17%	533	22%
Public Works	394	13%	401	16%
Health and Social Services	3	0%	0	0%
Culture and Recreation	343	11%	384	15%
Community & Econ Devel	37	1%	66	3%
General Government	276	9%	243	10%
Debt Service	69	2%	121	5%
Capital Projects	1,410	47%	731	29%
Total Disbursements	\$3,031	100%	\$2,479	100%
Excess if receipts over disbursements	(1,021)		(605)	
Total other financing sources	495		(1,211)	
Increase in cash basis net assets	(527)		(1,819)	
Cash basis net assets beg. of year	2,741		4,559	
Cash basis net assets end of year	2,214		919	

The City's total receipts and transfers for governmental activities increased by \$135,257. The total disbursements of all programs and services increased by \$548,875, with no new programs added this year.

The City did increase general fund property tax rates for 2014. The City of Hudson increased property tax by \$48,950. The City had governmental funds borrowed balance in fiscal 2014 equaling \$5.212 million including the existing balance for 2011 General Obligation Bond of \$4.520 million, 2013 General Obligation Bond of \$.865 million and bank loan/tractor of \$.047 million.

The costs of all governmental activities this year was \$3.030 million compared to \$2.481 million last year. Overall the City's governmental program receipts increased in 2014 from approximately \$230,395 to \$243,759. Total business type activity receipts, debt proceeds and transfers between accounts for the fiscal year were \$750,637 compared to \$774,930 last year. Total disbursements and transfers for the fiscal year were \$2,535,429 compared to \$1,269,953 last year.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands) Year Ended June 30, 2014				
Description	2014	% of Total	2013	% of Total
Receipts and transfers:				
Program Receipts				
Charges for Services				
Water	316	41%	328	16%
Sewer	256	34%	290	14%
Non-major	179	24%	157	7%
General Receipts:				
Unrestricted interest on investments	11	1%	3	0%
Miscellaneous & Debt Proceeds	0	0%	-65	-3%
Other and Transfers in	0	0%	1399	66%
Total Receipts	762	100%	2112	100%
Disbursements:				
Water	364	39%	289	17%
Sewer	447	48%	1291	75%
Non-major	129	13%	131	8%
Total Disbursements	940	100%	1711	100%
Transfers Out	448		187	
Increase (Decrease) in cash balance	<u>-626</u>		<u>214</u>	
Cash basis net assets beginning of year	557		343	
Cash basis net assets end of year	-68		557	

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

- The Tax Increment Finance (TIF) Fund was established to account for a major urban renewal project within the City's business district. The cash balance in the TIF Fund was \$83,749 a increase of \$63 over the 2013 fund balance of \$83,686. A Northern Tier Commercial Urban Renewal Area was established by the City of Hudson in fiscal year 2010 with no revenues or expenses certified as year ending June 30, 2014.

- The Debt Service Fund was supported by transfers in of \$88,002 from the Water Fund. No property taxes were levied to pay down general obligation bonds. A GO Obligation Debt Series 2011 was issued on September 15, 2011 in the amount of \$4.815 million, a GO Obligation Debt Series 2013 was issued on June 24, 2013 in the amount of \$.935 million and a Bank Loan for JD Tractor on March 11, 2014 in the amount of \$.047 million. After redemption's the outstanding balance of debt is \$5.212 million for 2014. The remaining balance in the Debt Service Fund was \$00.00.
- The Local Option Sales Tax Fund had receipts of \$298,450 and then transferred \$585,000 to the general fund. The net result was a decrease \$286,550, leaving an ending Local Option Sales tax Fund balance of \$122,639.
- The decrease in the Water Fund cash balance changed from \$328,168 to a cash balance of (\$3,763). The decrease was due to a reallocation in expenses for bonding and an increase in water utility rates to offset increased expenses for purchased water from Waterloo Water Works and payment of infrastructure to Northern Tier.
- The Sewer Fund cash balance decreased from \$116,523 to (\$204,089) due to payment of infrastructure to Northern Tier.
- The Storm Water Fund balance increased from \$99,973 to \$111,633 due to revenues exceeding expenses for the year.
- The Solid Waste Fund balance increased from \$12,433 to \$28,054 due to revenues exceeding expenses for the year.
- The Non-major Fund cash balance increased by \$180,963 from \$441,064 to \$622,027. The balance in the Non-major Fund reflects a cash basis total of \$622,027 with a restricted balance amount of \$455,272 leaving \$166,755 unassigned Non-major Fund in 2014.
- Capital Project Funds were established or maintained for the Northern Tier, Eldora Road, and Washington/Waterloo/6th Street Intersection with a combined ending fund cash balance of (\$32,153), a decrease of \$146,684 from 2013. Expenses are anticipated to be recouped with TIF Financing, Grants, Internal Fund Transfers, or Bond Notes.

Capital Projects Ending Balances for 2014:

Northern Tier	(\$2,415)
Eldora Road	(\$1,456)
Washington/6th St	(\$28,282)

- Special Revenue Funds increased by \$180,963 to a year ending balance of \$622,027.

Special Revenue Ending Balances for 2014:

IJOBS	\$0
Employee Benefits	\$158,000

Underpass Trail	\$5,255
TIF Capital Projects	\$95,371
TIF Surplus	\$154,646
TIF	(\$4,827)
Economic Development	\$200,000
Building Condemnations	\$5,000
Unemployment Benefits	\$8,582

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once in May 2014. The net result of that amendment was to increase revenues by \$1,150,000. Expenditure increase is attributable to governmental activities including infrastructure repairs and new lines in the Northern Tier paid out of past fund balances/reserves.

DEBT ADMINISTRATION

At June 30, 2014 the City had \$5,165,000 of General Obligation Capital Loan Notes and a Bank Loan of \$47,258 for purchase of JD Tractor.

Outstanding Debt at Year End (Expressed in Thousands)

Description	Year Ending June 30, 2014
2013 General Obligation-Capital Loan Note	865
2011 General Obligation-Capital Loan Note	4,300
2014 Bank Loan-JD Tractor	47
Total Outstanding Debt	5,212

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation & bank loan debt of \$5,212,000 is below its constitutional debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Hudson's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014-2015 budget.

Amounts available for appropriation in the operating 2014-2015 budget for receipts of \$2,998,756. This is a reduction due to capital project grants not expected in the period. Budgeted disbursements are expected to be \$2,159,879 for the budget 2014-2015. The City has added no major new programs; however, it is anticipated that expenses will cost no more than anticipated revenues for fiscal year 2015 budgetary accounting. This number will fluctuate within the fiscal year 2015 due to capital project completion or delays, grant receipts, or emergency action items on behalf of the city from property taxes.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives or disburses. If you have any questions about this report or need additional financial information, contact the Hudson City Clerk's Office, 525 Jefferson Street, Hudson, Iowa, 50643. Phone (319) 988-3600.

Email: lrasmussen@cityofhudsonia.com

Basic Financial Statements

City of Hudson

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2014

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Oper. Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 499,380	167,356	3,600	-
Public works	393,628	-	227,866	26,540
Health and social services	2,366	-	-	-
Culture and recreation	343,113	18,950	18,617	-
Community and economic developme:	37,388	1,917	-	-
General government	275,916	66,284	-	-
Debt service	68,876	-	-	-
Capital projects	1,409,890	-	-	-
Business type	-	-	-	-
Total governmental activities	3,030,557	254,507	250,083	26,540
Business type activities:				
Sewer	447,387	258,235	-	-
Water	364,375	324,946	-	-
Solid Waste	125,602	141,223	-	-
Nonmajor business type funds	1,878	37,446	-	-
Total business type activities	939,242	761,850	-	-
Total	\$ 3,969,799	1,016,357	250,083	26,540
General Receipts and Transfers:				
Property tax levied for:				
General purposes				
Tax increment financing				
Local option sales tax				
Unrestricted interest				
Rents				
Loan Proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net assets end of year				
Cash Basis Net Position				
Restricted:				
Expendable:				
Streets				
Debt Service				
Other purposes				
Unrestricted				
Total cash basis net position				
See notes to financial statements				

Net (Disbursements) Receipts and
Changes in Cash Basis Net Position

Governmental Activities	Business Type Activities	Total
(328,424)	-	(328,424)
(139,222)	-	(139,222)
(2,366)	-	(2,366)
(305,546)	-	(305,546)
(35,471)	-	(35,471)
(209,632)	-	(209,632)
(68,876)	-	(68,876)
(1,409,890)	-	(1,409,890)
-	-	-
(2,499,427)	-	(2,499,427)
-	(189,152)	(189,152)
-	(39,429)	(39,429)
-	15,621	15,621
-	35,568	35,568
-	(177,392)	(177,392)
(2,499,427)	(177,392)	(2,676,819)
918,581	-	918,581
83,749	-	83,749
292,538	-	292,538
33,386	-	33,386
4,425	-	4,425
47,258	-	47,258
145,001	-	145,001
447,870	(447,870)	-
1,972,808	(447,870)	1,524,938
(526,619)	(625,262)	(1,151,881)
2,741,002	557,097	3,298,099
\$ 2,214,383	(68,165)	2,146,218
149,506	-	149,506
99,202	-	99,202
664,840	-	664,840
1,300,835	(68,165)	1,232,670
\$ 2,214,383	(68,165)	2,146,218

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2014

	General	Special Revenue		Capital Proj.	
		Road Use Tax-#110	Local Option Tax-#121	Butterfield #310	Ranchero Wtr Mn-#311
Receipts:					
Property tax	\$ 766,881	-	-	-	-
TIF collections	-	-	-	-	-
Other city tax	-	-	292,538	-	-
Licenses and permits	81,857	-	-	-	-
Use of money and property	59,468	-	5,912	-	-
Intergovernmental	154,633	227,866	-	-	-
Charges for service	75,066	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	100,830	-	-	-	-
Total receipts	1,238,735	227,866	298,450	-	-
Disbursements:					
Operating:					
Public safety	499,380	-	-	-	-
Public works	336,905	56,723	-	-	-
Health and social services	2,366	-	-	-	-
Culture and recreation	332,037	-	-	-	-
Community and economic development	35,458	-	-	-	-
General government	275,916	-	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	925,989	443,071
Business Type	-	-	-	-	-
Total disbursements	1,482,062	56,723	-	925,989	443,071
Excess of receipts over disbursements	(243,327)	171,143	298,450	(925,989)	(443,071)
Other financing sources (uses):					
Loan Proceeds	47,258	-	-	-	-
Operating transfers in	218,506	-	-	629,296	530,000
Operating transfers out	(84,880)	(91,759)	(585,000)	(100,651)	-
Total other financing sources (uses)	180,884	(91,759)	(585,000)	528,645	530,000
Net change in cash balances	(62,443)	79,384	(286,550)	(397,344)	86,929
Cash balances beginning of year	1,626,020	70,122	409,189	-	-
Cash balances end of year	\$ 1,563,577	149,506	122,639	(397,344)	86,929
Cash Basis Fund Balances					
Restricted For:					
Streets	-	149,506	-	-	-
Debt Service	-	-	-	-	-
Other Purposes	-	-	122,639	-	86,929
Unassigned	1,563,577	-	-	(397,344)	-
Total cash basis fund balances	\$ 1,563,577	149,506	122,639	(397,344)	86,929

Nonmajor Governmental	Total
151,701	918,582
83,749	83,749
-	292,538
-	81,857
3,054	68,434
-	382,499
-	75,066
-	-
5,255	106,085
243,759	2,008,810
-	499,380
-	393,628
-	2,366
11,076	343,113
1,930	37,388
-	-
-	275,916
68,876	68,876
40,830	1,409,890
-	-
122,712	3,030,557
121,047	(1,021,747)
-	47,258
609,513	1,987,315
(677,155)	(1,539,445)
(67,642)	495,128
53,405	(526,619)
635,671	2,741,002
689,076	2,214,383
-	149,506
99,202	99,202
455,272	664,840
134,602	1,300,835
689,076	2,214,383

City of Hudson

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Cash Basis Statement of Activities and Net Position -
Governmental Funds

As of and for the year ended June 30, 2014

Total governmental funds cash balances (page 11)	\$ 2,214,383
The city does not have an internal service fund. Therefore there are no reconciling items.	<hr/> -
Cash basis net position of governmental activities (page 9)	<hr/> <u>\$ 2,214,383</u>
Net change in cash balances (page 11)	\$ (526,619)
The city does not have an internal service fund. Therefore there are no reconciling items.	<hr/> -
Change in cash basis net position of governmental activities (page 9)	<hr/> <u>\$ (526,619)</u>

See notes to financial statements

City of Hudson

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2014

	Sewer	Water	Solid Waste	Nonmajor	Total
Operating receipts:					
Charges for service	\$ 255,720	316,248	141,223	37,446	750,637
Use of money and property	2,515	4,213	-	-	6,728
Miscellaneous	-	4,485	-	-	4,485
Total operating receipts	258,235	324,946	141,223	37,446	761,850
Operating disbursements:					
Business type activities	447,387	364,375	125,602	1,878	939,242
Total operating disbursements	447,387	364,375	125,602	1,878	939,242
Excess (deficiency) of operating receipts over (under) operating disbursements	(189,152)	(39,429)	15,621	35,568	(177,392)
Operating transfers in	-	-	-	-	-
Operating transfers out	(131,460)	(292,502)	-	(23,908)	(447,870)
Net change in cash balances	(320,612)	(331,931)	15,621	11,660	(625,262)
Cash balances beginning of year	116,523	328,168	12,433	99,973	557,097
Cash balances end of year	\$ (204,089)	(3,763)	28,054	111,633	(68,165)
Cash Basis Fund Balances					
Unrestricted	\$ (204,089)	(3,763)	28,054	111,633	(68,165)
Restricted for Debt Service	-	-	-	-	-
Total cash basis fund balances	\$ (204,089)	(3,763)	28,054	111,633	(68,165)

See notes to financial statements

City of Hudson

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Cash Basis Statement of Activities and Net Position -
Proprietary Funds

As of and for the year ended June 30, 2014

Total enterprise funds cash balances (page 12)	\$ (68,165)
--	-------------

The city does not have an internal service fund.
Therefore there are no reconciling items.

-

Cash basis net position of business type activities (page 9)	\$ (68,165)
---	-------------

Net change in cash balances (page 12)	\$ (625,262)
---------------------------------------	--------------

The city does not have an internal service fund.
Therefore there are no reconciling items.

-

Change in cash basis net position of business type activities (page 9)	\$ (625,262)
---	--------------

See notes to financial statements

City of Hudson

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

The City of Hudson is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1893 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hudson has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Hudson and its discretely presented component units the Hudson Municipal Electric Utility and the Hudson Municipal Communication Utility. These component units, discussed below, are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. (See Note 13)

Discretely Presented Component Unit

Hudson Municipal Electric Utility, established under Chapter 388 of the Code of Iowa, is a legally separate entity, but has the potential to provide specific benefits to or impose specific burdens on the City. The Utility is governed by a five member board appointed by the Mayor and approved by the Council. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Utility meets the definition of a component unit which should be discretely presented. Condensed financial information presented in Note 13 is unaudited and was prepared on the cash basis of accounting in conformity with U. S. generally accepted accounting principles.

Hudson Municipal Communications Utility, is a legally separate entity, but has the potential to provide specific benefits to or impose specific burdens on the City. The Communications Utility is still in the exploratory stage and it is unknown whether or not it will become functional.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The City is represented on the Black Hawk County Consolidated Public Safety Communications Board, Black Hawk Conference Board, Black Hawk County Solid Waste Management Commission, Iowa Emergency Medical Service Association, Black Hawk County Fire Fighters Association, Grundy County Fire Fighters Association, NEIA Regional Hazmat Agreement, Black Hawk County E911 Board, Tri-County Drug Enforcement Task Force, Black Hawk County REAP Commission, and Black Hawk County Metropolitan Area Transportation Board and Technical Committee.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund (#110) is used to account for road construction and maintenance.

The Local Option Tax Fund (#121) is used to account for the receipt and disbursement of the Local Option Tax.

Capital Projects:

Butterfield (#310) is used to account for the Butterfield project.

Ranchero (#311) is used to account for the Ranchero project.

The City reports the following major proprietary funds:

The Enterprise Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise Water Fund accounts for the operation and maintenance of the City's water system.

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste operations.

C. Measurement Focus and Basis of Accounting

The City of Hudson maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant

resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable-Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted-Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state, or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned-Amounts the Council intends to use for specific purposes.

Unassigned-All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014 the City did not exceed the amounts budgeted.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of June 30, 2014, the City had no investments, as all ending fund balances were in the form of certificates of deposit, savings accounts and checking accounts.

Interest rate risk-The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days and meet their definition of *Instruments Eligible for Investment*. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity of the General Obligation Capital Loan Notes are as follows:

Year Ending June	Capital Obligation Capital Loan Notes	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 295,000	132,708
2016	295,000	130,192
2017	335,000	126,820
2018	350,000	122,040
2019	350,000	119,295
2020-2024	1,875,000	410,510
2025-2029	1,310,000	194,445
2030-2034	<u>355,000</u>	<u>21,400</u>
	<u>\$ 5,165,000</u>	<u>1,257,410</u>

General Obligation Refunding Bonds:

The City issued \$935,000 in General Obligation Corporate Refunding Bonds dated June 1, 2013 with variable interest ranging from 0.75% to 2.50%. The bonds were issued for the purpose of refunding series 2006 Water Revenue Capital Note, series Sewer Revenue Capital Note and series 2010 Water Revenue Loan.

Interest on the bonds is payable June 1 and December 1 each year beginning December 1, 2013. Principal payments are due on June 1 of each year beginning June 1, 2014. The City paid \$18,001 in interest and \$70,000 in principal during the year ended June 30, 2014.

General Obligation Corporate Purpose and Refunding Bonds:

The City issued \$4,815,000 in General Obligation Corporate Purpose and Refunding Bonds, dated September 15, 2011, with variable interest ranging from 0.35% to 4.00%. The notes were issued for the purpose of advance refunding of General Obligation Capital Loan Notes dated June 1, 2006 and to finance various improvements, including those to the city's streets, sidewalks, and sewer and water systems.

- a. Interest on the bonds is payable on June 1 and December 1 each year beginning June 1, 2012. Principal payments are due on June 1 of each year beginning June 1, 2012.
- b. The notes are subject to prepayment at the option of the Issuer; in each of the years 2020 through 2031 inclusive, prior to and in any order of maturity on June 30, 2019, or on any date thereafter upon terms of par plus interest to date of call.

- c. The bonds maturing June 1, 2027 and 2031 are subject to Mandatory Sinking Fund Redemption, in part, at 100% of the principal amount to be redeemed plus interest accrued to the date of redemption. Thus the 2027 \$490,000 Term Bond will require a payment of \$330,000 plus interest on June 1, 2026 and the remaining \$160,000 plus interest on June 1, 2027. The payments on the 2031 \$690,000 Term Bond is shown below:

The City paid \$119,478 in interest and \$220,000 in principal during year ended June 30, 2014. Balance at June 30, 2014 was \$4,300,000.

There is a note payable to BankIowa of Waterloo, Iowa dated March 11, 2014 with an original balance of \$47,258. Interest rate is 3.950%. There are fifty-nine payments of \$869.26 and one final payment of \$982.51 due on March 15, 2019 scheduled. The borrowing was used to purchase a John Deere #4720 Compact Utility Tractor, a John Deere #400CX Loader and a John Deere #96107 Pro Sno Blade.

(4) Pension and Retirement Benefits
Iowa Public Employees Retirement System-

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$56,375, \$53,962, and \$54,324, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description-The City operates a single-employee retiree benefit plan which provides medical/ prescription drug benefits for employees and retired employees and their spouses. There are 14 active and retired members in the plan. Participants must be age 55 or older at retirement.

The medical/ prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/ prescription drug benefits as active employees.

Funding Policy- The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$549 medical and \$25 dental for single coverage, \$1,040 medical and \$43 dental for employee and children, \$1,125 medical and \$51 dental, and \$1,686 medical and \$76 dental for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2014, the City contributed \$108,298 and plan members eligible for benefits contributed \$23,619 to the plan.

(6) Compensated Absences

City of Hudson employees accumulate a limited amount of earned but unused vacation and sick leave hours based on the length of employment. It is payable when used and may be accumulated at a rate of 10 days per year, to a maximum of 90 days. At the end of employment, any employee with accumulated sick leave will be paid 15% of their accumulated sick leave. Vacation is payable when used and accumulates based on an employee's anniversary date. Vacation may be accumulated past the anniversary date in isolated cases specifically approved by the City council. The City also has a policy of paying an employee up to 50% of the employee's accumulated vacation time, at the current pay rate. Employees are also able to convert unpaid overtime hours into comp time at time and one-half. These accumulations are not recognized as disbursements by the City until used or paid. At the end of employment, the City is liable for earned vacation, for comp time, and for accumulated sick leave. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2014 is \$23,983. The City's approximate liability for earned comp time payable to employees at June 30, 2014 is \$13,051. The City's approximate liability for sick leave at June 30, 2014 is \$12,269. This liability has been computed based on rates of pay in effect at June 30, 2014.

(7) Unemployment Fund

The City files reports with the Iowa Workforce Development (IWD), but pays nothing to IWD. Therefore the City is responsible for any unemployment claims. Beginning in the year ended June 30, 2012 the City created a fund to account for unemployment claims. During the year the City transferred \$18,000 from the General Fund to the newly created Unemployment Fund. The City paid out \$11,076 in claims for year ended June 30, 2014.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General-General:	Road Use Tax	53,938
	Local Option Tax	35,000
	General Reserve	37,820
General-Reserve:	Sewer	30,020
	Storm Water	23,908
	Road Use Tax	<u>37,820</u>
		<u>218,506</u>
Special Revenue:		
TIF	General	35,000
	Butterfield	<u>100,651</u>
		<u>135,651</u>
Unemployment	General	12,060
	Water	4,500
	Sewer	<u>1,440</u>
		<u>18,000</u>

Debt Service:	Water	<u>88,002</u>
Capital Projects:		
Highway 6/Eldora	TIF	<u>8,677</u>
Business Park	I-Jobs	67,790
	2011 Bond Sale	<u>164,419</u>
		<u>232,209</u>
Cedar Street	TIF	<u>126,974</u>
Butterfield	Local Option Tax	220,000
	Sewer	100,000
	2011 Bond Sale	<u>309,296</u>
		<u>629,296</u>
Ranchero	Local Option Sales Tax	330,000
	Water	<u>200,000</u>
		<u>530,000</u>
Total Interfund Transfers		<u>\$1,987,315</u>

(9) Related Party Transactions

The City had business transactions between the City and City employees totaling \$3,375 during the year ended June 30, 2014.

(10) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Deficit Balance

The Special Revenue-Butterfield and TIF, Capital Projects-North Tier (#305), Eldora Grand Fund (#302), and Washington 6th Fund (#303,) Proprietary Funds-Sewer Fund and Water Fund had deficit balances at June 30, 2014. The City will eliminate with the receipt of funds or the transfer of funds.

(12) Landfill Commitment

The City of Hudson has a contract with Black Hawk Waste for the collection of solid that began July 1, 2011 and runs until June 30, 2014. Contract has been extended thru June 30, 2015.

(13) Hudson Electric Municipal Utility

The following Discretely Presented Component Unit is unaudited condensed financial information for the Utility for the year ended June 30, 2014.

Condensed Statement of Receipts, Disbursements and Changes in Cash Balances-As of and for the Year Ended June 30, 2014-Unaudited

Operating Receipts	\$ 1,555,984
Operating Disbursements	<u>1,567,094</u>
Net Change in Cash Balances	(11,110)
Cash Balance Beginning of Year	<u>752,508</u>
Cash Balance End of Year	\$ <u>741,398</u>

(14) Equipment Leases

The City has a lease with Waterloo Implement for a John Deere zero turn mower. The lease is for the period May 1, 2013 to December 1, 2013. The city paid \$3,006 on this lease for the year ended June 30, 2014.

(15) Litigation

The City is a defendant in a lawsuit relating to termination of employment. Insurance covers attorney fees, but if a judgment for wages and benefits, the City would be responsible for those amounts. As litigation is in the early stages any potential amount is not determinable at this time.

(16) Subsequent Events

No significant subsequent events were noted. The City has considered subsequent events through October 2, 2014, date of the audit report.

Other Information

City of Hudson

Budgetary Comparison Schedule
of Receipts, disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Other Information

Year ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 918,582	-	-
Tax increment financing collections	83,749	-	-
Other city tax	292,538	-	-
Licenses and permits	81,857	-	-
Use of money and property	68,434	6,728	-
Intergovernmental	382,499	-	-
Charges for service	75,066	750,637	-
Special assessments	-	-	-
Miscellaneous	106,085	4,485	-
Total receipts	2,008,810	761,850	-
Disbursements:			
Public safety	499,380	-	-
Public works	393,628	-	-
Health and social services	2,366	-	-
Culture and recreation	343,113	-	-
Community and economic development	37,388	-	-
General government	275,916	-	-
Debt service	68,876	-	-
Capital projects	1,409,890	-	-
Business type activities	-	939,242	-
Total disbursements	3,030,557	939,242	-
Excess of receipts over disbursements	(1,021,747)	(177,392)	-
Other financing sources, net	495,128	(447,870)	-
Excess of receipts and other financing sources over disbursements and other financing uses	(526,619)	(625,262)	-
Balances beginning of year	2,741,002	557,097	-
Balances end of year	\$ 2,214,383	(68,165)	-

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
918,582	908,634	908,634	9,948
83,749	89,565	89,565	(5,816)
292,538	261,036	261,036	31,502
81,857	37,975	37,975	43,882
75,162	114,333	114,333	(39,171)
382,499	1,530,055	1,530,055	(1,147,556)
825,703	990,644	990,644	(164,941)
-	-	-	-
110,570	83,415	83,415	27,155
2,770,660	4,015,657	4,015,657	(1,244,997)
499,380	639,101	639,101	139,721
393,628	313,928	313,928	(79,700)
2,366	6,000	6,000	3,634
343,113	398,069	398,069	54,956
37,388	109,379	109,379	71,991
275,916	291,373	291,373	15,457
68,876	428,611	428,611	359,735
1,409,890	1,218,000	2,368,000	958,110
939,242	611,196	756,965	(182,277)
3,969,799	4,015,657	5,311,426	1,341,627
(1,199,139)	-	(1,295,769)	96,630
47,258	-	(1,889,100)	1,936,358
(1,151,881)	-	(3,184,869)	2,032,988
3,298,099	4,961,426	4,961,426	(1,663,327)
2,146,218	4,961,426	1,776,557	369,661

City of Hudson

Notes to Other Information – Budgetary Reporting

June 30, 2014

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended and increased budgeted disbursements by \$1,150,000.

City of Hudson

Supplementary Information

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2014

	NonMajor Debt Service	NonMajor Special Revenue Schedule 2	NonMajor Capital Projects Schedule 3	Total
Receipts:				
Property tax	\$ -	151,701	-	151,701
Tax increment financing collections	-	83,749	-	83,749
Other city tax	-	-	-	-
Use of money and property	-	3,054	-	3,054
Intergovernmental	-	-	-	-
Miscellaneous	-	5,255	-	5,255
Total receipts	-	243,759	-	243,759
Disbursements:				
Operating:				
Public Works	-	-	-	-
Culture and Recreation	-	11,076	-	11,076
Community and Economic Development	-	1,930	-	1,930
Debt Service	68,876	-	-	68,876
Capital Projects	-	-	40,830	40,830
Total disbursements	68,876	13,006	40,830	122,712
Excess (deficiency) of receipts over (under) disbursements	(68,876)	230,753	(40,830)	121,047
Other financing sources:				
Operating transfers in	88,002	153,651	367,860	609,513
Operating transfers out	-	(203,441)	(473,714)	(677,155)
Net change in cash balances	19,126	180,963	(146,684)	53,405
Cash balances beginning of year	80,076	441,064	114,531	635,671
Cash balances end of year	\$ 99,202	622,027	(32,153)	689,076
Cash Basis Fund Balances				
Restricted for Other Purposes	\$ 99,202	455,272	-	554,474
Unassigned	-	166,755	(32,153)	134,602
	\$ 99,202	622,027	(32,153)	689,076

See accompanying independent auditor's report

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds-Special Revenue

As of and for the year ended June 30, 2014

	#111 I JOBS	#112 Employee Benefits	#120 Underpass Trail	#125 TIF CAP PROJ	#126 TIF SURPLUS
Receipts:					
Property tax	-	151,701		-	-
Tax increment financing collections	-	-		83,749	-
Other city tax	-	-		-	-
Use of money and property	-	-		3,054	-
Intergovernmental	-	-		-	-
Miscellaneous	-		5,255	-	
Total receipts	-	151,701	5,255	86,803	-
Disbursements:					
Operating:					
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Community and economic development	-	-	-	1,930	-
Debt service	-	-	-	-	-
Capital Projects	-	-	-	-	-
Total disbursements	-	-	-	1,930	-
Excess (deficiency) of receipts over (under) disbursements	-	151,701	5,255	84,873	-
Other financing sources:					
Operating transfers in	-	-	-	135,651	-
Operating transfers out	(67,790)	-	-	(135,651)	-
Net change in cash balances	(67,790)	151,701	5,255	84,873	-
Cash balances beginning of year	67,790	6,299	-	10,498	154,646
Cash balances end of year	-	158,000	5,255	95,371	154,646
Cash Basis Fund Balances					
Restricted for Other Purposes	-	-	5,255	95,371	154,646
Unassigned	-	158,000	-	-	-
	-	158,000	5,255	95,371	154,646

See accompanying independent auditor's report

#127 TIF	#160 Economic Development	#181 Building Condemnations	#182 Unemployment Payments	Total
-	-	-	-	151,701
-	-	-	-	83,749
-	-	-	-	-
-	-	-	-	3,054
-	-	-	-	-
				5,255
-	-	-	-	243,759
-	-	-	-	-
-	-	-	11,076	11,076
-	-	-	-	1,930
-	-	-	-	-
-	-	-	-	-
-	-	-	11,076	13,006
-	-	-	(11,076)	230,753
-	-	-	18,000	153,651
-	-	-	-	(203,441)
-	-	-	6,924	180,963
(4,827)	200,000	5,000	1,658	441,064
(4,827)	200,000	5,000	8,582	622,027
-	200,000	-	-	455,272
(4,827)	-	5,000	8,582	166,755
(4,827)	200,000	5,000	8,582	622,027

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds-Capital Projects

As of and for the year ended June 30, 2014

	Capital Projects					
	#302 Eldora Grt Fund	#303 Wash/ 6th	#305 North Tier	#306 Cedar St Strm Wtr	#320 Bond Sale	Total
Receipts:						
Property tax	\$ -	-	-	-	-	-
Tax increment financing collections	-	-	-	-	-	-
Other city tax	-	-	-	-	-	-
Use of money and property	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total receipts	-	-	-	-	-	-
Disbursements:						
Operating:						
Capital Projects	1,456	36,959	2,415	-	-	40,830
Total disbursements	1,456	36,959	2,415	-	-	40,830
Excess (deficiency) of receipts over (under) disbursements	(1,456)	(36,959)	(2,415)	-	-	(40,830)
Other financing sources:						
Operating transfers in	-	8,677	232,209	126,974	-	367,860
Operating transfers out	-	-	-	-	(473,714)	(473,714)
Net change in cash balances	(1,456)	(28,282)	229,794	126,974	(473,714)	(146,684)
Cash balances beginning of year	-	-	(232,209)	(126,974)	473,714	114,531
Cash balances end of year	\$ (1,456)	(28,282)	(2,415)	-	-	(32,153)
Cash Basis Fund Balances						
Unassigned	\$ (1,456)	(28,282)	(2,415)	-	-	(32,153)
Total cash basis fund balances	\$ (1,456)	(28,282)	(2,415)	-	-	(32,153)

See accompanying independent auditor's report

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2014

	#740 Storm Water	#630 Electric	Total
Operating Receipts:			
Charges for service	\$ 37,446	-	37,446
Use of money and property	-	-	-
Miscellaneous	-	-	-
Total operating receipts	37,446	-	37,446
Operating Disbursements:			
Business type activities	1,878	-	1,878
Total operating disbursements	1,878	-	1,878
Excess (deficiency) of receipts over (under) operating disbursements	35,568	-	35,568
Non-operating receipts(disbursements):			
Debt Proceeds	-	-	-
Debt Service	-	-	-
Excess of receipts over disbursements	35,568	-	35,568
Operating transfers in	-	-	-
Operating transfers out	(23,908)	-	(23,908)
Net change in cash balances	11,660	-	11,660
Cash balances beginning of year	83,470	16,503	99,973
Cash balances end of year	\$ 95,130	16,503	111,633
Cash Basis Fund Balances			
Unrestricted	\$ 95,130	16,503	111,633
Restricted for Debt Service	-	-	-
Total cash basis fund balances	\$ 95,130	16,503	111,633

See accompanying independent auditor's report

CITY OF HUDSON
SCHEDULE OF INDEBTEDNESS
JUNE 30, 2014

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance 7/1/2013</u>
General Obligation Capital Ln Notes, Series 2013	6/24/2013	.75-2.5%	\$ 935,000	\$ 935,000
General Obligation Capital Ln Notes, Series 2011	9/15/2011	.35-4.0%	4,815,000	<u>4,520,000</u>
TOTAL GENERAL OBLIGATION				<u><u>5,455,000</u></u>
Bank Loan-Purchase of Tractor	3/11/2014	3.95%	47,258	<u><u>-</u></u>

<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance 6/30/2014</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
-	70,000	865,000	18,001	-
-	220,000	4,300,000	119,478	-
-	290,000	5,165,000	137,479	-
47,258	-	47,258	-	-

City of Hudson

Bond and Note Maturities

June 30, 2014

Year Ending June 30,	General Obligation Capital Loan Notes		General Obligation Capital Loan Notes	
	Issued June 24, 2013		Issued Sept. 15, 2011	
	Interest Rates	Amount	Interest Rates	Amount
2015	0.75%	\$ 70,000	0.95%	225,000
2016	0.75%	70,000	1.20%	225,000
2017	1.15%	70,000	1.50%	265,000
2018	1.15%	70,000	1.80%	280,000
2019	1.15%	70,000	2.10%	280,000
2020	1.70%	70,000	2.30%	295,000
2021	1.70%	70,000	2.50%	290,000
2022	1.70%	70,000	2.75%	300,000
2023	2.50%	75,000	2.85%	310,000
2024	2.50%	75,000	3.00%	320,000
2025	2.50%	75,000	3.15%	330,000
2026	2.50%	80,000	4.00%	330,000
			4.00%	160,000
			4.00%	165,000
			4.00%	170,000
			4.00%	175,000
			4.00%	180,000
		<u>\$ 865,000</u>		<u>4,300,000</u>

See accompanying independent auditor's report

City of Hudson

Schedule of Receipts by Source and Disbursements By Function
All Governmental Funds

For the Last Ten Years Ended June 30

	2014	2013	2012	2011
Receipts:				
Property tax	\$ 918,582	869,695	807,128	767,740
Tax increment financing	83,749	83,686	85,072	89,587
Other city tax	292,538	275,678	288,484	255,398
Licenses and permits	81,857	96,641	98,309	63,266
Use of money and property	68,434	39,407	59,277	36,051
Intergovernmental	382,499	388,007	650,579	369,220
Charges for service	75,066	71,773	90,566	71,704
Special assessments	-	-	-	-
Miscellaneous	106,085	48,666	107,956	55,207
Total	<u>\$ 2,008,810</u>	<u>1,873,553</u>	<u>2,187,371</u>	<u>1,708,173</u>
Disbursements:				
Operating:				
Public safety	\$ 499,380	533,173	606,162	466,753
Public works	393,628	401,690	324,787	420,462
Health and social services	2,366	-	2,750	3,000
Culture and recreation	343,113	384,374	402,206	362,891
Community and economic development	37,388	66,861	52,982	46,994
General government	275,916	243,496	240,157	192,430
Debt service	68,876	121,053	200,988	200,388
Capital projects	1,409,890	731,035	2,653,824	289,216
Business type	-	-	-	-
Total	<u>\$ 3,030,557</u>	<u>2,481,682</u>	<u>4,483,856</u>	<u>1,982,134</u>

See accompanying independent auditor's report

Schedule 7

2010	2009	2008	2007	2006	2005
735,485	702,182	664,085	663,057	679,949	579,612
85,291	85,849	83,541	53,445	61,042	337,583
260,965	256,879	252,649	224,717	233,252	218,195
47,850	39,445	43,283	37,024	40,125	33,009
116,637	109,803	87,998	114,536	104,153	76,821
339,158	304,243	329,042	288,862	400,681	430,497
61,605	65,139	63,575	41,355	25,971	27,054
-	-	-	-	-	-
24,788	26,476	76,147	32,389	37,620	32,569
1,671,779	1,590,016	1,600,320	1,455,385	1,582,793	1,735,340
390,220	733,212	407,123	408,563	435,337	344,562
339,263	325,640	332,346	960,408	599,231	321,786
3,000	3,045	3,000	4,500	2,500	1,787
319,378	306,881	310,679	314,752	276,246	346,490
43,225	44,230	46,921	601,328	140,978	74,673
245,411	240,505	241,598	227,196	245,170	208,078
199,338	203,338	206,939	106,938	952,913	177,773
80,341	-	383,001	-	38,395	123,745
-	-	-	-	-	-
1,620,176	1,856,851	1,931,607	2,623,685	2,690,770	1,598,894

City of Hudson

RFSW Ridihalgh Fuelling
Snitker Weber & Co.
C E R T I F I E D P U B L I C A C C O U N T A N T S

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2014, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 2, 2014. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Hudson is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Hudson's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hudson's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hudson's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material statement of the City of Hudson's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as II-A-14 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-14 to be a significant deficiency.

Compliance and Other Matters

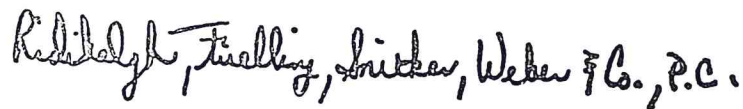
As part of obtaining reasonable assurance about whether the City of Hudson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the city's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Hudson's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit Hudson's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the city of Hudson and other parties to whom Hudson may report, including federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hudson during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

October 2, 2014

City of Hudson

City of Hudson

Schedule of Findings and Questioned Costs

June 30, 2014

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-14 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. City of Hudson is a small city with an office staff consisting of only two full time individuals for most of the year and a part time individual part of the year. All employees can have custody of cash before depositing, record cash as received and prepare deposits.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City will review its controls procedures in an attempt to maximum internal control where possible under the circumstances.

Conclusion – Response accepted.

- II-B-14 Significant Deficiency – The City of Hudson, Iowa prepares financial statements, but does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnotes disclosures) in accordance with the cash basis of accounting; therefore, it relies on its auditors to prepare such statements.

Management Response – Management feels that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements. Management approves the draft financial statements prior to their issuance.

INSTANCES OF NON-COMPLIANCE

Part III: Findings and Questioned Costs for Federal Awards:

There were no findings and questioned costs for federal awards.

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-14 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2014.

- IV-B-14 Certified Budget – City disbursements exceeded budgeted amounts in the public works and the business type activities functions during the year ended June 30, 2014.

Recommendation-The budget should be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response-The over expenditures were partly to the city clerk leaving and the amendment not being prepared timely. The city will be more diligent in the future in regard to amending the budget on a timely basis.

Conclusion-Response accepted.

- IV-C-14 Questionable Disbursements – We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-D-14 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- IV-E-14 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mary Bucy, Library Director, Owner of Bucy Cleaning	Janitorial services	\$3,375

The transaction with the Library Director does not appear to represent a conflict of interest since it was entered into through competitive bidding.

- IV-F-14 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- IV-G-14 Council Minutes – We found transfers from TIF to Capital Projects that were not TIF projects. These were corrected with subsequent adjusting journal entries. The council approved a transfer but did not designate the particular funds.

Recommendation–All transfers should be specifically approved by the City Council or thru the budgetary process.

Response–In the future the City Council will designate and approve all transfer of funds between funds by resolution or thru the budgetary process.

Conclusion–Response accepted.

- IV-H-14 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy.

- IV-I-14 Payment of General Obligation Bonds–The General Obligation Capital Loan Notes, Series 2011 and Series 2013 were paid from various funds including the General Fund, the Sewer Fund, and the Water Fund. Chapter 384.4 of the Code of Iowa states in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – In the future the City should transfer any potential payments against general obligation bonds into the Debt Service Fund. Payment on bonds should be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended.

Conclusion – Response accepted.

- IV-J-14 Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from increment property tax. The County Auditor provides for the division of

property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. We noted no instances of noncompliance with the provisions of Chapter 403.19 of the Code of Iowa.

IV-K-14 Urban Renewal Annual Report-The urban renewal annual report was approved and report was filed November 22, 2013.

IV-L-14 Budget Publication-The budget was published with an incorrect opening cash balance. The City showed a transfer out without a corresponding transfer in to adjust the opening cash balance.

Recommendation-Under the amendment column the opening balance could have been amended on the "Beginning Fund Balance July 1". In the future any adjustment to the beginning balance should be made on this line.

Response-In the future any adjustment to the beginning balance will be adjusted under the Current Amendment column on the "Beginning Fund Balance July 1" line.

Conclusion-Response accepted.

IV-M-14 Holding of Checks-The City received a check from the state dated in May 2014, but did not deposit the check until July 2014.

Recommendation-The City is on the cash basis and therefore should deposit all cash receipts as soon as possible.

Response-The City had not incurred the expense to which this receipt was related and had attempted to match the revenue with the expense. In the future the City will deposit all receipts as soon as possible.

Conclusion-Response accepted.

IV-O-14 Canceling of invoices-During the audit of debt we discovered statements for the payment of principal and interest that did not show they had been paid.

Recommendation-Any statements for payment should be stamped paid with the date paid and check number if applicable.

Response-In the future all invoices will be canceled.

Conclusion-Response accepted.

Staff

This audit was performed by:

Donald A. Snitker, CPA, Audit Partner

Brent Waters, CPA, Staff

James Remington, Staff